



Undervalued stocks are always difficult to uncover. Hupsteel might just be one such stock, waiting to shine.

[Hupsteel](#) is a steel trader based and listed in Singapore. Its business model is similar to that of Lee Metal (which has nearly doubled in price since it was [highlighted at SingWealth](#) [more than 4 years ago](#)).

Unlike Lee Metal which sources steel mainly for the construction industry, Hupsteel's niche is in serving industrial customers such as ship/rig builders and contractors in the oil and gas industry.

Risk Factors

1) Unsexy, cyclical steel business

In line with the softening demand for steel worldwide, Hupsteel's earnings per share has steadily declined from 2.24 shares to 0.41 cents per share. A quick glance at Hupsteel operating

revenue and profit in the past twelve months confirms the observation that Hupsteel's core business has been lacklustre recently. Indeed, Hupsteel warns in its FY2014 Q3 earning statement that "market demand for structural steel products is not expected to improve in the short term as shipbuilding and construction activities remain sluggish." {loadposition advert1}

Furthermore, the commodity trading business is one that requires significant working capital. Hupsteel typically has around 6 months worth of sales tied up in the form of trade receivables, which drags down its returns on equity and asset ratios

As a steel trader, Hupsteel's business is easy to understand, but it is also pretty much a market price taker and has little economic moat to speak of. Faced with this prospect, other steel traders have ventured into related businesses (most notably Lee Metal, which branched into property development), whereas Hupsteel has steadfastly remained almost purely a steel trader (besides collecting a meagre rental income from its investment property portfolio)

Table 1: Hupsteel Quarterly Earnings (Q4 FY2013 to Q3 FY2014)

Currency in Millions of Singapore Dollars	As of:	Jun 30 2013 SGD	Sep 30 2013 SGD	Dec 31 2013 SGD	Mar 31 2014 SGD
Revenues		32.3	33.1	30.9	26.0
TOTAL REVENUES		32.3	33.1	30.9	26.0
Cost Of Goods Sold		28.0	28.2	25.7	21.6
GROSS PROFIT		4.2	4.9	5.2	4.4
Selling General & Admin Expenses, Total		2.9	2.0	2.1	2.0
Depreciation & Amortization, Total		0.5	0.4	0.4	0.4
Other Operating Expenses		0.1	1.6	1.8	1.0
OTHER OPERATING EXPENSES, TOTAL		3.5	4.1	4.4	3.5
OPERATING INCOME		0.8	0.8	0.8	0.8

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